CANAF GROUP INC.

October 31, 2012 and 2011

Consolidated Financial Statements

(Expressed in U.S. dollars)

Independent Auditors' Report

To the Shareholders of:
CANAF GROUP INC.

We have audited the accompanying consolidated financial statements of Canaf Group Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at October 31, 2012, October 31, 2011, and November 1, 2010, and the consolidated statements of comprehensive income, changes in equity, and cash flows for the years ended October 31, 2012 and 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canaf Group Inc. and its subsidiaries as at October 31, 2012, October 31, 2011, and November 1, 2010, and their financial performance and their cash flows for the years ended October 31, 2012 and 2011, in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 of the consolidated financial statements which indicates that Canaf Group Inc. and its subsidiaries are dependent on the operating cash flows from its coal processing business and are economically dependent on two customers. These factors, along with the other matters explained in Note 1, cast uncertainties on the company's ability to continue as a going concern. The consolidated financial statements do not include the adjustments that would result if Canaf Group Inc. and its subsidiaries were unable to continue as a going concern.

"WDM Chartered Accountants"

Vancouver, B.C.
February 26, 2013

CANAF GROUP INC.

Consolidated Statements of Financial Position

(Expressed in U.S. Dollars)

	Note	October 31, 2012 $	October 31, 2011 $ (Note 22)	November 1, 2010 $ (Note 22)
ASSETS				
CURRENT				
Cash		1,429,103	208,915	956,894
Trade Receivables	17	918,903	1,675,054	1,749,114
Sales Tax Receivable	5	84,190	34,061	-
Inventories	6	953,202	1,300,373	518,035
Prepaid Expense and Deposits		35,993	34,134	-
Due to Related Party	12(a)	-	3,462	-
		3,421,391	3,255,999	3,224,043
NON-CURRENT				
Property, Plant and Equipment	7	607,671	448,897	510,589
Intangible Assets	2(g)	1	1	1
		4,029,063	3,704,897	3,734,633
LIABILITIES				
CURRENT				
Trade and Other Payables	8	2,215,912	1,527,461	1,544,515
Sales Tax Payable	5	-	-	52,313
Income Tax Payable		83,046	117,247	291,857
Current Portion of Bank Loan	9	39,293	40,035	-
Current Portion of Debentures	10	150,000	-	-
Due to Related Parties	12	310,304	694,898	796,841
		2,798,555	2,379,641	2,685,526
NON-CURRENT				
Bank Loan	9	31,515	78,537	-
Debentures	10	-	150,000	184,611
Deferred Tax Liability	13(b)	41,863	65,758	136,786
		2,871,933	2,673,936	3,006,923
SHAREHOLDERS' EQUITY				
Share Capital	11	8,079,463	8,079,463	8,079,463
Reserve for Stock Options		-	120,285	120,285
Accumulated Other Comprehensive Loss – Foreign Currency Translation Reserve		(473,154)	(271,515)	-
Deficit		(6,449,179)	(6,897,272)	(7,472,038)
		1,157,130	1,030,961	727,710
		4,029,063	3,704,897	3,734,633

Nature of Operations and Ability to Continue as a Going Concern (Note 1)
Economic Dependence (Note 17)
Commitment (Note 18)

The accompanying notes are an integral part of the consolidated financial statements.

Approved on Behalf of the Board:

"Christopher Way"	**"Kevin Corrigan"**
Christopher Way, Director	Kevin Corrigan, Director

CANAF GROUP INC.

Consolidated Statements of Comprehensive Income

For the Years Ended October 31, 2012 and 2011

(Expressed in U.S. Dollars)

	Note	2012 $	2011 $ (Note 22)
SALES		10,882,074	13,336,725
COST OF SALES	15	9,780,080	11,670,369
GROSS PROFIT		1,101,994	1,666,356
EXPENSES			
Depreciation		4,448	9,241
General and Administrative	16	572,357	603,804
Interest on Bank Loan	9	7,801	3,775
Interest on Debentures	10	12,153	16,255
Interest on Related Party Loan	12(d)	25,406	34,855
Interest Income		(17,900)	(13,572)
Write-off Trade and Other Payables	8	(123,695)	-
		480,570	654,358
INCOME BEFORE INCOME TAXES		621,424	1,011,998
Income Taxes	13(a)	(293,616)	(437,232)
NET INCOME FOR THE YEAR		327,808	574,766
OTHER COMPREHENSIVE INCOME			
Foreign Currency Translation Loss		(201,639)	(271,515)
COMPREHENSIVE INCOME FOR THE YEAR		126,169	303,251
BASIC AND DILUTED EARNINGS PER SHARE		0.01	0.01
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC		47,426,195	47,426,195
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – DILUTED		47,426,195	48,526,195

The accompanying notes are an integral part of the consolidated financial statements.

CANAF GROUP INC.

Consolidated Statements of Changes in Equity

For the Years Ended October 31, 2012 and 2011

(Expressed in U.S. Dollars)

	Note	Number of Common Shares	Share Capital $	Reserve for Stock Options $	Foreign Currency Translation Reserve $	Deficit $	Total Shareholders' Equity $
Balance, November 1, 2010	22	47,426,195	8,079,463	120,285	-	(7,472,038)	727,710
Net Income for the Year		-	-	-	-	574,766	574,766
Foreign Currency Translation Loss		-	-	-	(271,515)	-	(271,515)
Balance, October 31, 2011	22	47,426,195	8,079,463	120,285	(271,515)	(6,897,272)	1,030,961
Net Income for the Year		-	-	-	-	327,808	327,808
Foreign Currency Translation Loss		-	-	-	(201,639)	-	(201,639)
Expiry of Stock Options		-	-	(120,285)	-	120,285	-
Balance, October 31, 2012		47,426,195	8,079,463	-	(473,154)	(6,449,179)	1,157,130

The accompanying notes are an integral part of the consolidated financial statements.

CANAF GROUP INC.

Consolidated Statements of Cash Flows

For the Years Ended October 31, 2012 and 2011

(Expressed in U.S. Dollars)

	Note	2012 $	2011 $ (Note 22)
CASH PROVIDED BY (USED FOR):			
OPERATING ACTIVITIES			
Net Income for the Year		327,808	574,766
Non-Cash Items			
Depreciation		4,448	9,241
Depreciation – Cost of Sales		225,420	413,818
Deferred Tax Recovery		(19,966)	(67,215)
Write-off Trade and Other Payables		(123,695)	-
		414,015	930,610
Changes in Non-Cash Working Capital Accounts	14(a)	1,411,784	(1,338,404)
		1,825,799	(407,794)
FINANCING ACTIVITIES			
Bank Loan – Net (Repayment) Proceeds		(38,989)	133,777
Debentures – Net Repayment		-	(34,611)
		(38,989)	99,166
INVESTING ACTIVITY			
Purchase of Property, Plant and Equipment		(443,346)	(385,720)
INCREASE (DECREASE) IN CASH		1,343,464	(694,348)
Effect of Exchange Rate Changes on Cash		(123,276)	(53,631)
Cash, Beginning of the Year		208,915	956,894
CASH, END OF THE YEAR		1,429,103	208,915

Supplemental Cash Flow Information (Note 14)

The accompanying notes are an integral part of the consolidated financial statements.

NOTE 1 – NATURE OF OPERATIONS AND ABILITY TO CONTINUE AS A GOING CONCERN

Canaf Group Inc. (the "Company") is incorporated in the Province of Alberta and owns and operates a coal processing plant in South Africa which processes coal and coal products into calcine, a coke substitute with a high carbon content.

The head office, principal address, and records office of the Company are located at Suite 500 – 666 Burrard Street, Vancouver, British Columbia, Canada, V6C 2P6.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on the basis that the Company is a going concern and will be able to meet its obligations and continue its operations for its next fiscal year.

The Company's ability to continue as a going concern is dependent upon its ability to generate profitable operations from its coal processing business, which the Company has been able to achieve in the last two fiscal years. The Company has a working capital of $622,836 as at October 31, 2012, and generated a positive cash flow of $1,825,799 from operations during the year then ended. Management believes that the Company has sufficient cash resources to meet its obligations for at least twelve months from the end of the reporting period.

Sales of the Company are substantially derived from two customers however, and as a result, the Company is economically dependent on these customers (Note 17). The Company is dependent on the operating cash flows from its coal processing business and the financial support of its shareholders and related parties to finance its operations and to discharge liabilities in the normal course of business. There is no assurance that the Company can attain profitability and positive operating cash flows, and the loss of a customer or reduced sales from a customer may have a material adverse effect on the Company's financial condition. These conditions cast uncertainties on the Company's ability to continue as a going concern.

These consolidated financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

a) Statement of Compliance

These consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB").

These are the Company's first consolidated annual financial statements presented in accordance with IFRS. The Company adopted IFRS in accordance with IFRS 1 "First-Time Adoption of International Financial Reporting Standards" as at November 1, 2010 as disclosed in Note 22.

Subject to certain transition elections and exemptions provided for in IFRS 1, the Company has consistently applied the same accounting policies in our opening IFRS balance sheet as at November 1, 2010, and throughout all periods presented, as if these policies had always been in effect. Note 22 discloses the impact of the transition to IFRS on the Company's reported equity, comprehensive income, and cash flows, including the nature and effect of significant changes in accounting policies from those used in our consolidated financial statements for the year ended October 31, 2011, prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

These consolidated financial statements were approved and authorized for issue by the Board of Directors on February 26, 2013.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Basis of Preparation

These consolidated financial statements have been prepared on a historical cost basis. Cost is the fair value of the consideration given in exchange for net assets.

c) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and all its subsidiaries (collectively, the "Company"):

Entity	Country of Incorporation	Holding	Functional Currency
Canaf Group Inc.	Canada	Parent Company	Canadian Dollar
Quantum Screening and Crushing (Proprietary) Limited	South Africa	100%	South African Rand
Canaf (SL) Limited	Sierra Leone	51%	Canadian Dollar
Nabisoga Mining Ltd.	United States	100%	Canadian Dollar
Rwenzori Cobalt Company Ltd.	United States	100%	Canadian Dollar

Intercompany balances and transactions are eliminated in preparing these consolidated financial statements. Canaf (SL) Limited, Nabisoga Mining Ltd., and Rwenzori Cobalt Company Ltd. are inactive subsidiaries.

d) Foreign Currency

These consolidated financial statements are presented in U.S. dollars. Each entity determines its own functional currency (Note 2(c)) and items included in the financial statements of each entity are measured using that functional currency.

i) Transactions and Balances in Foreign Currencies

Foreign currency transactions are translated into the functional currency of the respective entity, using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items at year-end exchange rates are recognized immediately in profit or loss.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction and are not retranslated. Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

ii) Foreign Operations

On consolidation, the assets and liabilities of foreign operations are translated into Canadian dollars from their functional currency at the exchange rate prevailing at the reporting date and their income statements are translated at the exchange rate prevailing at the dates of the transactions. The exchange differences arising on the translation are recognized in other comprehensive income and accumulated in the foreign currency translation reserve in equity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in earnings as part of the gain or loss on disposal.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Inventories

Inventories consists of raw materials and finished goods (calcine) and are valued at the lower of cost and estimated net realizable value. Estimated net realizable value is the estimated selling price in the ordinary course of business less any cost of disposal.

Cost is determined on the following basis: Raw materials and packing material are valued at average cost. Finished goods are valued at raw material cost plus labour cost and an appropriate portion of the related fixed and variable manufacturing overhead expenses based on normal capacity.

Cost of sales is determined on a weighted average cost basis and includes transportation and handling costs.

f) Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognized to write off the cost of the property, plant and equipment less their residual values over their useful lives using the straight line method at the following rates, except in the year of acquisition, when one half of the rates are used:

Computer Equipment	3 Years
Leasehold Improvements	5 Years
Office Equipment	5 Years
Plant and Equipment	5 Years
Vehicles	5 Years

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

g) Intangible Assets

Intangible assets represent the identifiable value of customer contracts acquired on the purchase of the South African subsidiary in 2007. On October 31, 2008, the Company wrote down the carrying value of its intangible assets to a nominal amount.

h) Impairment of Non-Current Assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. Individual assets are grouped together as a cash generating unit for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are independent from other group assets.

If any such indication of impairment exists, the Company makes an estimate of its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. Where the carrying amount of a cash generating unit exceeds its recoverable amount, the cash generating unit is considered impaired and is written down to its recoverable amount. In assessing the value in use, the estimated future cash flows are adjusted for the risks specific to the cash generating unit and are discounted to their present value with a discount rate that reflects the current market indicators.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

h) Impairment of Non-Current Assets (Continued)

Where an impairment loss subsequently reverses, the carrying amount of the cash generating unit is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the cash generating unit in prior years. A reversal of an impairment loss is recognized as income immediately.

i) Revenue Recognition

Revenue from the sale of calcine is recognized upon transfer of title which is completed when the physical product is delivered to customers and collection is reasonably assured. Interest and other income are recognized when earned and collection is reasonably assured.

j) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. As at October 31, 2012, October 31, 2011, and November 1, 2010, the Company has no material provisions.

k) Share Capital

Share capital includes cash consideration received for share issuances, net of commissions and issue costs. Common shares issued for non-monetary consideration are recorded at their fair market value based upon the trading price of the Company’s shares on the TSX Venture Exchange on the date of the agreement.

l) Share-Based Payments

The fair value method of accounting is used for share-based payment transactions. Under this method, the cost of stock options and other share-based payments is recorded based on the estimated fair value using the Black-Scholes option pricing model at the grant date and is charged to profit over the vesting period. The amount recognized as an expense is adjusted to reflect the number of equity instruments expected to vest.

Upon the exercise of stock options and other share-based payments, consideration received on the exercise of these equity instruments is recorded as share capital and the related share-based payment reserve is transferred to share capital.

m) Earnings per Common Share

Basic earnings per share is calculated by dividing the net income available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share is computed in accordance with the treasury stock method and based on the weighted average number of common shares and dilutive equity instruments.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

i) Current Income Tax

Current income tax assets and/or liabilities comprise those claims from, or, obligations to, fiscal authorities relating to the current or prior reporting periods that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the consolidated financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

ii) Deferred Income Tax

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax liabilities are always provided for in full.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

o) Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities classified at fair value through profit or loss) are added to, or deducted from, the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities classified at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets and financial liabilities are measured subsequently as described below. The Company does not have any derivative financial instruments.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) Financial Instruments (Continued)

i) Financial Assets

For the purpose of subsequent measurement, financial assets, other than those designated and effective as hedging instruments, are classified into the following categories upon initial recognition:

- Financial assets at fair value through profit or loss;
- Loans and receivables;
- Held-to-maturity investments; and
- Available-for-sale financial assets.

The category determines subsequent measurement and whether any resulting income and expense is recognized in profit or loss or in other comprehensive income.

- ***Financial assets at fair value through profit or loss*** – Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading or that meet certain conditions and are designated at fair value through profit or loss upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments. Assets in this category are measured at fair value with gains or losses recognized in profit or loss. The Company's cash falls into this category of financial instruments.

- ***Loans and receivables*** – Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective interest method, less any provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Company's trade receivable and amount due from related party fall into this category of financial instruments.

- ***Held-to-maturity investments*** – Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity, other than loans and receivables. Investments are classified as held-to-maturity if the Company has the intention and ability to hold them until maturity. The Company currently does not hold financial assets in this category.

- ***Available-for-sale financial assets*** – Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Company currently does not hold financial assets in this category.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date that the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the financial asset and all substantial risks and rewards are transferred.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) Financial Instruments (Continued)

ii) Financial Liabilities

For the purpose of subsequent measurement, financial liabilities are classified as either financial liabilities at fair value through profit or loss, or other financial liabilities upon initial recognition.

- ***Financial liabilities at fair value through profit or loss*** – Financial liabilities at fair value through profit or loss include financial liabilities that are either classified as held for trading or that meet certain conditions and are designated at fair value through profit or loss upon initial recognition. Liabilities in this category are measured at fair value with gains or losses recognized in profit or loss. The Company currently does not hold financial liabilities in this category.

- ***Other financial liabilities*** – Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized as well as through the effective interest rate method amortization process. The Company's trade and other payables, amounts due to related parties, bank loan, and debentures fall into this category of financial instruments.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expired.

p) Comparative Figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year. These reclassifications have no effect on the consolidated net loss for the year ended October 31, 2011.

NOTE 3 – SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In the application of the Company's accounting policies which are described in Note 2, management is required to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

Significant judgments, estimates and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are described below.

a) Useful Lives of Property and Equipment and Intangible Assets

Management reviews the useful lives of property, plant and equipment and intangible assets at each reporting date, based on the expected utility of these assets to the Company. Actual useful lives of these assets may differ from the estimate.

NOTE 3 – SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

b) Impairment of Non-Current Assets

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each asset or cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows, management makes assumptions about future operating results. These assumptions relate to future events and circumstances. In addition, when determining the applicable discount rate, estimation is involved in determining the appropriate adjustments to market risk and asset-specific risk factors.

Actual results may vary and may cause significant adjustments to the Company's assets within the next financial year.

c) Deferred Tax Assets

Deferred tax assets, including those arising from un-utilized tax losses, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

The Company has recorded a full valuation allowance against its deferred tax assets due to the uncertainty in the realization of these assets.

NOTE 4 – ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new accounting standards, amendments to standards, and interpretations are issued but not yet effective up the date of issuance of the Company's consolidated financial statements. The Company intends to adopt the following standards when they become effective. These standards are required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet determined the impact of these standards on its consolidated financial statements.

a) IFRS 9 – Financial Instruments

IFRS 9 addresses classification and measurement of financial assets and replaces the multiple category and measurement models in International Accounting Standards ("IAS") 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income.

b) IFRS 10 – Consolidated Financial Statements

IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This IFRS defines the principle of control and establishes control as the basis for determining which entities are consolidated in an entity's consolidated financial statements. IFRS 10 sets out three elements of control: a) power over the investee; b) exposure, or rights, to variable returns from involvement with the investee; and c) the ability to use power over the investee to affect the amount of the investors' return.

(Expressed in U.S. Dollars)

NOTE 4 – ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE (Continued)

b) IFRS 10 – Consolidated Financial Statements (Continued)

IFRS 10 sets out the requirements on how to apply the control principle. IFRS 10 supersedes IAS 27 "Consolidated and Separate Financial Statements" and Standing Interpretations Committee ("SIC") 12 "Consolidation – Special Purpose Entities".

c) IFRS 11 – Joint Arrangements

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation, the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31 "Interests in Joint Ventures", and SIC-13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers".

d) IFRS 12 – Disclosure of Interest in Other Entities

IFRS 12 combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, associates, and structured entities into one comprehensive disclosure standard. The objective of IFRS 12 is for an entity to disclose information that helps users of its financial statements evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance, and cash flows. IFRS 12 also requires that an entity disclose the significant judgments and assumptions it has made.

e) IFRS 13 – Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for fair value measurements. IFRS 13 does not change when an entity is required to use fair value but rather, provides guidance on how to measure fair value under IFRS when fair value is required or permitted by IFRS.

NOTE 5 – SALES TAX RECEIVABLE (PAYABLE)

	October 31, 2012 $	October 31, 2011 $	November 30, 2010 $
South African Value-Added Tax Receivable (Payable)	82,222	30,754	(52,313)
Canadian Harmonized Sales Tax Receivable	1,968	3,307	-
	84,190	34,061	(52,313)

NOTE 6 – INVENTORIES

Raw Materials	853,589	374,428	308,044
Finished Goods – Calcine	99,613	925,945	209,991
	953,202	1,300,373	518,035

(Expressed in U.S. Dollars)

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT

	Land	Computer Equipment	Leasehold Improvements	Office Equipment	Plant and Equipment	Vehicles	Total
	$	$	$	$	$	$	$
COST							
Balance, November 1, 2010	-	16,285	188,760	15,202	3,560,826	65,610	3,846,683
Additions	-	-	-	-	385,720	-	385,720
Foreign Currency Translation	-	(1,797)	(22,618)	(1,821)	(239,100)	(6,053)	(271,389)
Balance, October 31, 2011	-	14,488	166,142	13,381	3,707,446	59,557	3,961,014
Additions	138,902	2,320	118,045	-	184,079	-	443,346
Foreign Currency Translation	(9,656)	(2,690)	(23,782)	(1,255)	(193,674)	(1,414)	(232,471)
Balance, October 31, 2012	129,246	14,118	260,405	12,126	3,697,851	58,143	4,171,889
ACCUMULATED DEPRECIATION							
Balance, November 1, 2010	-	15,940	186,468	13,114	3,072,306	48,266	3,336,094
Depreciation	-	114	1,848	762	411,439	8,896	423,059
Foreign Currency Translation	-	(1,566)	(22,547)	(1,655)	(219,215)	(2,053)	(247,036)
Balance, October 31, 2011	-	14,488	165,769	12,221	3,264,530	55,109	3,512,117
Depreciation	-	451	12,805	661	211,503	4,448	229,868
Foreign Currency Translation	-	(2,560)	(16,433)	(1,192)	(156,168)	(1,414)	(177,767)
Balance, October 31, 2012	-	12,379	162,141	11,690	3,319,865	58,143	3,564,218
NET BOOK VALUE							
November 1, 2010	-	345	2,292	2,088	488,520	17,344	510,589
October 31, 2011	-	-	373	1,160	442,916	4,448	448,897
October 31, 2012	129,246	1,739	98,264	436	377,986	-	607,671

NOTE 8 – TRADE AND OTHER PAYABLES

	October 31, 2012 $	October 31, 2011 $	November 1, 2010 $
Trade Payable	2,175,912	1,487,461	1,504,515
Accrued Liability	40,000	40,000	40,000
	2,215,912	1,527,461	1,544,515

For the year ended October 31, 2012, the Company wrote off trade payables totalling $123,695 (CDN$121,352) representing amounts that have been outstanding for greater than six years.

NOTE 9 – BANK LOAN

Bank Loan	70,808	118,572	-
Less: Current Portion	(39,293)	(40,035)	-
	31,515	78,537	-

The bank loan bears interest at 8% per annum, matures on July 1, 2014, and is secured by the Company's pilot modular impact crusher acquired in June 2011. The bank loan is repayable in South African Rand with a monthly blended payment of Rand 31,591 ($3,628). As at October 31, 2012, the outstanding bank loan balance was Rand 616,542 ($70,808). During the year ended October 31, 2012, the Company incurred interest expense totalling $7,801 (2011 – $3,775).

Future principal payments are $39,293 and $31,515, respectively, for the years ended October 31, 2013 and 2014.

NOTE 10 – DEBENTURES

Principle Payable	100,000	100,000	100,000
Principle Payable – Related Company	50,000	50,000	50,000
Interest Payable	-	-	23,179
Interest Payable – Related Company	-	-	11,432
	150,000	150,000	184,611
Less: Current Portion	(150,000)	-	-
	-	150,000	184,611

In January 2009, the Company issued debentures totalling $150,000 which included $50,000 subscribed by a related company controlled by a Director of the Company. The debentures bear interest at 8% per annum compounded annually effective May 1, 2011, and are secured by a first floating charge on all property and assets of the Company. The debentures mature on May 1, 2013, at which date the debentures may be converted into common shares of the Company at $0.25 per common share. Prior to May 1, 2011, the debentures were subject to an interest rate of 12% per annum compounded annually.

During the year ended October 31, 2012, the Company incurred interest expense totalling $12,153 (2011 – $16,255), of which $4,051 (2011 – $5,415) was paid to the related company. There was no interest outstanding as at October 31, 2012 and 2011 (November 1, 2010 – $34,611).

(Expressed in U.S. Dollars)

NOTE 11 – SHARE CAPITAL

a) Authorized Share Capital

The Company is authorized to issue an unlimited number of common shares without par value.

b) Stock Options

	Number of Options	Exercise Price $
Balance, November 1, 2010 and October 31, 2011	1,100,000	0.10
Expired	(1,100,000)	0.10
Balance, October 31, 2012	-	-

NOTE 12 – RELATED PARTY TRANSACTIONS

In addition to those transactions disclosed elsewhere in these consolidated financial statements, the Company has amounts owed to the following related parties:

	October 31, 2012 $	October 31, 2011 $	November 1, 2010 $
Due from a Director (a)	-	3,462	-
Due to a Director (b)	-	-	22,653
Due to a Related Company (c)	88,000	88,000	88,000
Due to a Related Company (d)	222,304	606,898	686,188
	310,304	694,898	796,841

a) The amount due from a Director of the Company for an advance made was unsecured, non-interest bearing, and had no specified terms of repayment. During the year ended October 31, 2012, the Company incurred accounting fees of $53,293 (2011 – $54,626) to this director for administration and bookkeeping services.

b) The amount due to a Director of the Company was unsecured, non-interest bearing, and had no specific terms of repayment. During the year ended October 31, 2012, the Company incurred consulting fees of $58,846 (2011 – $48,295) to this director for administration and management services.

c) The amount due to a company controlled by a Director of the Company for advances made is unsecured, non-interest bearing, and has no specific terms of repayment.

d) The amount due to a company controlled by a Director of the Company for advances made is unsecured, bears interest at 6% per annum, and has no specific terms of repayment. As at October 31, 2012, the outstanding amount included accrued interest of $42,679 (October 31, 2011 – $277,273; November 1, 2010 – $242,418). During the year ended October 31, 2012, the Company recorded interest expense of $25,406 (2011 – $34,855).

e) The Company paid management fees of $189,204 (2011 – $230,289) to the Directors for administration and management services in relation to the Company's coal processing business in South Africa.

All related party transactions were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the related parties.

(Expressed in U.S. Dollars)

NOTE 13 – INCOME TAXES

a) Provision for Income Taxes

The income tax expense of the Company is reconciled to the net income for the year as reported in the consolidated statements of comprehensive income as follows:

	2012 $	2011 $
Expected Income Tax Expense at Statutory Tax Rates	156,909	271,553
Amounts Not Deductible for Tax	-	143,185
Amounts Not Taxable	(37)	(140,708)
Effect of Differences in Tax Rates in Foreign Jurisdictions	24,449	18,906
Effect of Reduction in Statutory Tax Rates	(1,535)	1,243
Expiry of Non-Capital Loss Carry-Forward	-	52,304
South African Secondary Tax	75,907	54,832
Other	(43,230)	(21,391)
Change in Valuation Allowance	81,153	57,308
Income Tax Expense	293,616	437,232
Current Income Tax Expense	313,582	504,447
Future Income Tax Recovery	(19,966)	(67,215)
Income Tax Expense	293,616	437,232

b) Deferred Tax Assets and Liabilities

As at October 31, 2012, the Company has temporary differences between the carrying value of the assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

	October 31, 2012 $	October 31, 2011 $	November 30, 2010 $
Non-Capital Losses	3,067,308	2,744,751	2,483,689
Net Capital Losses	683,470	680,534	680,534
Tax Value over Book Value of Computer Equipment	1,570	1,570	1,196
Tax Value over Book Value of Mineral Property	202,045	202,045	198,243
Share Issue Costs	-	-	36,885
	3,954,393	3,628,900	3,400,547

Deferred tax liabilities have been recognized for the following:

Book Value over Tax Value of Plant and Equipment	41,863	65,758	136,786

(Expressed in U.S. Dollars)

NOTE 13 – INCOME TAXES (Continued)

b) Deferred Tax Assets and Liabilities (Continued)

As at October 31, 2012, the Company has accumulated Canadian non-capital losses of $3,067,308 which are available to reduce future taxable income in Canada and expire as follows:

	$
2014	70,391
2015	399,221
2026	334,341
2027	474,063
2028	498,869
2029	151,084
2030	512,352
2031	359,420
2032	267,567
	3,067,308

As at October 31, 2012, the Company has Canadian tax deductible exploration expenditures of $202,045 which can be carried forward indefinitely to offset future taxable income in Canada. No provision for Ugandan and Sierra Leonean income taxes has been recorded as the Company is unable to accurately determine the amount of its loss carry forwards and other tax attributes at this time.

NOTE 14 – SUPPLEMENTAL CASH FLOW INFORMATION

a) Change in Non-Cash Working Capital Accounts

	2012 $	2011 $
Trade Receivables	643,840	(153,621)
Sales Tax Receivable	(57,072)	(88,289)
Inventories	242,079	(948,971)
Prepaid Expenses and Deposits	(1,859)	(34,134)
Due from Related Party	3,462	(3,462)
Trade and Other Payables	1,000,953	149,643
Income Tax Payable	(35,025)	(157,626)
Due to Related Parties	(384,594)	(101,944)
	1,411,784	(1,338,404)

b) Other Items

South Africa Income and Secondary Tax Paid	338,981	655,064
Interest Paid	45,360	54,641
Interest Received	17,900	13,572

(Expressed in U.S. Dollars)

NOTE 15 – COST OF SALES

	2012 $	2011 $
Inventories, Beginning of the Year	1,300,373	518,035
Analysis Fees	31,283	30,075
Depreciation	225,420	413,818
Electricity	775,486	452,114
Fuel, Oil and Lubricants	13,822	9,122
Medical Expenses	2,836	4,574
Product Purchases	7,345,421	10,488,318
Professional and Project Management Fee	3,341	1,735
Protective Clothing	11,415	9,127
Rent	282,794	203,940
Repairs and Maintenance	223,074	257,305
Salaries, Wages and Labour	333,512	287,694
Transportation	289,598	461,519
Foreign Exchange Loss	(105,093)	(166,634)
Inventories, End of the Year	(953,202)	(1,300,373)
	9,780,080	11,670,369

NOTE 16 – GENERAL AND ADMINISTRATIVE EXPENSES

Bank Charges and Interest	4,126	3,995
Consulting Fees	58,846	54,053
Management Fees	189,204	230,289
Office, Insurance and Sundry	94,441	58,902
Professional Fees	130,432	142,701
Promotion	1,737	1,182
Telephone	16,721	16,968
Transfer Agent and Filing Fees	14,681	14,824
Travel	62,169	80,890
	572,357	603,804

NOTE 17 – ECONOMIC DEPENDENCE

Sales from the Company's South African coal processing business are substantially derived from two customers and as a result, the Company is economically dependent on these customers. The Company's exposure to credit risk is limited to the carrying value of its accounts receivable. As at October 31, 2012, trade receivables of $918,903 due from these customers was collected subsequent to year-end.

NOTE 18 – COMMITMENT

The Company has an agreement to lease premises for its coal processing plant in South Africa for a term of five years, expiring on January 1, 2016. The agreement offers the Company, in lieu of rent, feedstock coal to be delivered to its adjacent premises, which it purchases at market price. Should the Company decide to purchase feedstock materials from an alternative supplier which the lessor is otherwise able to provide, then a monthly rent of Rand 200,000 ($23,000) is payable. To date, the Company has not been required to pay any rent for the premises as it has continued to purchase feedstock coal from the landlord.

(Expressed in U.S. Dollars)

NOTE 19 – SEGMENTED INFORMATION

The Company operates in two reportable operating segments: the head office operations in Canada and the coal processing business in South Africa.

	Canada	South Africa	Total
	$	$	$
October 31, 2012			
Net (Loss) Income for the Year	(149,280)	477,088	327,808
Revenues (Note 17)	-	10,882,074	10,882,074
Gross Profit	-	1,101,994	1,101,904
Depreciation	-	4,448	4,448
Depreciation – Cost of Sales	-	225,420	225,420
Interest Expense	37,559	7,801	45,360
Current Income Tax Expense	-	313,582	313,582
Future Income Tax Recovery	-	(19,966)	(19,966)
Current Assets	51,107	3,370,284	3,421,391
Property, Plant and Equipment	-	607,671	607,671
Intangible Assets	-	1	1
Total Assets	51,107	3,977,956	4,029,063
October 31, 2011			
Net (Loss) Income for the Year	(326,804)	901,570	574,766
Revenues (Note 17)	-	13,336,725	13,336,725
Gross Profit	-	1,666,356	1,666,356
Depreciation	345	8,896	9,241
Depreciation – Cost of Sales	-	413,818	413,818
Interest Expense	51,110	3,775	54,885
Current Income Tax Expense	-	504,447	504,447
Future Income Tax Recovery	-	(67,215)	(67,215)
Current Assets	89,592	3,166,407	3,255,999
Plant and Equipment	-	448,897	448,897
Intangible Assets	-	1	1
Total Assets	89,592	3,615,305	3,704,897

NOTE 20 – CAPITAL RISK MANAGEMENT

The Company's objectives in managing its capital are to ensure adequate resources are available to fund its coal processing business in South Africa, to seek out and acquire new projects of merit, and to safeguard its ability to continue as a going concern. The Company manages its share capital as capital, which as at October 31, 2012, totalled $8,079,463 (October 31, 2011 and November 1, 2010 – $8,079,463).

The Company manages its capital structure in a manner that provides sufficient funding for operational and capital expenditure activities. Funds are secured through the sale of calcine in South Africa and, when necessary, through debt funding or equity capital raised by means of private placements. There can be no assurances that the Company will be able to obtain debt or equity capital in the case of operating cash deficits.

The Company may, from time to time, invest capital that is surplus to immediate operational needs in short-term, liquid, and highly rated financial instruments held with major financial institutions, or in marketable securities. The Company may also, from time to time, enter into forward foreign exchange and commodity price contracts to hedge a portion of its exposure to movements in foreign exchange and commodity prices.

The Company has no externally imposed capital requirements and has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future. There were no changes in the Company's approach to capital management during the year ended October 31, 2012.

NOTE 21 – FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to various risks in relation to financial instruments. The Company's financial assets and liabilities by category are summarized in Note 2(o). The Company's risk management is coordinated at its head office in Canada in close co-operation with the board of directors and focuses on actively securing the Company's short to medium-term cash flows and raising finances for the Company's capital expenditure program. The Company does not actively engage in the trading of financial assets for speculative purposes. The most significant financial risks to which the Company is exposed are described below.

a) Foreign Currency Risk

Foreign exchange risk arises because of fluctuations in exchange rates. The Company conducts a significant portion of its business activities in foreign currencies. The Company's subsidiaries, principally located in South Africa, routinely transact in the local currency, exposing the Company to potential foreign exchange risk in its financial position and cash flows.

The assets, liabilities, revenue and expenses that are denominated in foreign currencies will be affected by changes in the exchange rate between the United States dollar and these foreign currencies. The Company has outstanding debt obligations that are payable in Canadian dollars and has issued securities convertible or exercisable into common shares at values expressed in Canadian dollars. The Company does not currently use financial instruments to mitigate this risk.

b) Credit Risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company limits its exposure to credit loss for cash by placing its cash with high quality financial institutions and for trade receivable by performing standard credit checks. The credit risk for cash and trade receivables is considered negligible since the counterparties are reputable banks with high quality external credit ratings and customers with no history of default.

The Company has a credit risk exposure related to its economic dependence on two customers for its calcine sales (Note 17). The Company has assessed its exposure to credit risk and has determined that no significant risks exist from these concentrations of credit.

NOTE 21 – FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they become due. The Company ensures, as far as reasonably possible, that it will have sufficient capital in order to meet short-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash. The Company has a working capital of $622,836 as at October 31, 2012. There can be no assurance that the Company will be successful with generating and maintaining profitable operations or will be able to secure future debt or equity financing for its working capital and expansion activities (Note 1).

d) Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Interest on the Company's bank loan, debentures, and amount due to a related party is based on fixed rates, and as such, the Company is not exposed to significant interest rate risk.

e) Commodity Price Risk

The Company's revenues, earnings and cash flows are directly related to the volume and price of calcine sold and are sensitive to changes in market prices over which it has little or no control. The Company has the ability to address its price-related exposures through the use of sales contracts.

f) Fair Value

The Company uses the following hierarchy for determining fair value measurements:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

The Company's financial assets measured at fair value through profit or loss use Level 1 valuation techniques during the years ended October 31, 2012 and 2011. The carrying values of the Company's financial assets and liabilities approximate their fair values as at October 31, 2012.

NOTE 22 – FIRST-TIME ADOPTION OF IFRS

These are the Company's first consolidated annual financial statements prepared in accordance with IFRS. The Company adopted IFRS in accordance with IFRS 1 "First-Time Adoption of International Financial Reporting Standards" which requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was November 1, 2010 (the "Transition Date").

IFRS requires the Company to retrospectively apply all effective IFRS standards effective as of the Company's first IFRS annual reporting date as of October 31, 2012. IFRS are applied retrospectively at the Transition Date with all adjustments to assets and liabilities as stated under Canadian GAAP taken to retained earnings, unless certain optional exemptions and mandatory exceptions are applied.

a) First-time Adoption Exemptions Applied

IFRS 1 permits certain exemptions from full retrospective application upon transition. The Company has applied the following optional exemptions to its opening consolidated statement of financial position at November 1, 2010:

i) Business Combinations

The Company has elected not to retrospectively apply IFRS 3 "Business Combinations" to business combinations that occurred before the Transition Date.

ii) Share-Based Payment Transactions

The Company has elected not to apply IFRS 2 "Share-Based Payment" to equity instruments that vested prior to the Transition Date.

iii) Compound Financial Instruments

The Company has elected not to retrospectively separate the liability and equity components of compound instruments under IAS 32 "Financial Instruments – Presentation" if the liability component is no longer outstanding at the Transition Date.

iv) Cumulative Translation Differences

The Company has elected not to apply IAS 21 "The Effects of Changes in Foreign Exchange Rates" for cumulative translation differences that existed on the Transition Date. Accordingly, the Company has deemed the cumulative translation differences for all foreign operations to be zero at November 1, 2010, and adjusted retained earnings by the same amount. The gain or loss on a subsequent disposal of a foreign operation shall exclude translation differences that arose before November 1, 2010.

b) First-time Adoption Exception Applied

IFRS 1 also prohibits retrospective application of some aspects of other IFRSs. The Company has applied the mandatory exception for estimates to its opening statement of financial position at November 1, 2010:

An entity's estimates under IFRS at the Transition Date to IFRS must be consistent with estimates made for the same date under Canadian GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of November 1, 2010, are consistent with its Canadian GAAP estimates for the same date.

NOTE 22 – FIRST-TIME ADOPTION OF IFRS (Continued)

c) Notes to the Reconciliation of Canadian GAAP to IFRS

IFRS employs a conceptual framework that is similar to Canadian GAAP. While the adoption of IFRS has not changed the actual cash flows of the Company, the adoption has resulted in changes to the Company's reported financial position and results of operations. Presented in Note 22(d), (e) and (f) are reconciliations to IFRS of the Company's assets, liabilities, equity, comprehensive income, and cash flows from those reported under Canadian GAAP, with the resulting adjustments explained below.

i) Reserves in Equity

Under Canadian GAAP – A balance within contributed surplus existed to record the issuance of stock options and broker's warrants. Such amounts remained in contributed surplus upon expiry of the equity instruments.

Under IFRS – The components of contributed surplus are presented separately and reclassified into "reserve for stock options" and "reserve for broker's warrants". Such amounts are transferred to retained earnings upon expiry of the equity instruments. On the Transition Date, the Company transferred the value of expired equity instruments in the amount of $618,600 from reserves to retained earnings.

ii) Deferred Tax Asset and Liability

Under Canadian GAAP – Deferred tax assets and liabilities (previously referred to as future income tax assets and liabilities) were classified as current or non-current based on the classification of the underlying assets and liabilities to which they relate.

Under IFRS – All deferred tax assets and liabilities must be classified as non-current.

iii) Cumulative Translation Differences

The Company has deemed the cumulative translation difference of $130,095 that existed on the Transition Date to be zero and adjusted retained earnings by the same amount as elected under IFRS 1 (Note 22(a)(iv)).

iv) Property, Plant and Equipment

IFRS 1 provides a choice between measuring property, plant and equipment at its fair value at the Transition Date and using those amounts as the deemed cost or using the historical cost valuation under Canadian GAAP. The Company has chosen to continue applying the cost model and has not restated its property, plant and equipment under IFRS.

v) Presentation of Expenses

Under Canadian GAAP – Costs on the statement of comprehensive loss have been classified by nature.

Under IFRS – Costs on the statement of comprehensive loss have been classified by function in accordance with IAS 1. These costs have been reclassified to general and administrative expenses under IFRS from individual presentation by nature under Canadian GAAP.

(Expressed in U.S. Dollars)

NOTE 22 – FIRST-TIME ADOPTION OF IFRS (Continued)

d) Reconciliation of Consolidated Statement of Financial Position

The consolidated statement of financial position at the Transition Date on November 1, 2010 is reconciled to the amounts reported under Canadian GAAP as follows:

	Note	Canadian GAAP $	Effect of Transition to IFRS $	IFRS $
ASSETS				
CURRENT				
Cash		956,894	-	956,894
Trade Receivables		1,749,114	-	1,749,114
Inventories		518,035	-	518,035
		3,224,043	-	3,224,043
NON-CURRENT				
Property, Plant and Equipment	22(c)(iv)	510,589	-	510,589
Intangible Assets		1	-	1
		3,734,633	-	3,734,633
LIABILITIES				
CURRENT				
Trade and Other Payables		1,544,515	-	1,544,515
Sales Tax Payable		52,313	-	52,313
Income Tax Payable		291,857	-	291,857
Due to Related Parties		796,841	-	796,841
		2,685,526	-	2,685,526
NON-CURRENT				
Debentures		184,611	-	184,611
Deferred Tax Liability	22(c)(ii)	136,786	-	136,786
		3,006,923	-	3,006,923
SHAREHOLDERS' EQUITY				
Share Capital		8,079,463	-	8,079,463
Contributed Surplus	22(c)(i)	738,885	(738,885)	-
Reserve for Stock Options	22(c)(i)	-	120,285	120,285
Accumulated Other Comprehensive Income – Foreign Currency Translation Reserve	22(c)(iii)	130,095	(130,095)	-
Deficit		(8,220,733)	748,695	(7,472,038)
		727,710	-	727,710
		3,734,633	-	3,734,633

(Expressed in U.S. Dollars)

NOTE 22 – FIRST-TIME ADOPTION OF IFRS (Continued)

d) Reconciliation of Consolidated Statement of Financial Position (Continued)

The consolidated statement of financial position at October 31, 2011 is reconciled to the amounts reported under Canadian GAAP as follows:

	Note	Canadian GAAP $	Effect of Transition to IFRS $	IFRS $
ASSETS				
CURRENT				
Cash		208,915	-	208,915
Trade Receivables		1,675,054	-	1,675,054
Sales Tax Receivable		34,061	-	34,061
Inventories		1,300,373	-	1,300,373
Prepaid Expenses and Deposits		34,134	-	34,134
Due from Related Party		3,462		3,462
		3,255,999	-	3,255,999
NON-CURRENT				
Property, Plant and Equipment	22(c)(iv)	448,897	-	448,897
Intangible Assets		1	-	1
		3,704,897	-	3,704,897
LIABILITIES				
CURRENT				
Trade and Other Payables		1,527,461	-	1,527,461
Income Tax Payable		117,247	-	117,247
Current Portion of Bank Loan		40,035	-	40,035
Due to Related Parties		694,898	-	694,898
		2,379,641	-	2,379,641
NON-CURRENT				
Bank Loan		78,537	-	78,537
Debentures		150,000	-	150,000
Deferred Tax Liability	22(c)(ii)	65,758	-	65,758
		2,673,936	-	2,673,936
SHAREHOLDERS' EQUITY				
Share Capital		8,079,463	-	8,079,463
Contributed Surplus	22(c)(i)	738,885	(738,885)	-
Reserve for Stock Options	22(c)(i)	-	120,285	120,285
Accumulated Other Comprehensive Loss – Foreign Currency Translation Reserve	22(c)(iii)	(141,420)	(130,095)	(271,515)
Deficit		(7,645,967)	748,695	(6,897,272)
		1,030,961	-	1,030,961
		3,704,897	-	3,704,897

(Expressed in U.S. Dollars)

NOTE 22 – FIRST-TIME ADOPTION OF IFRS (Continued)

d) Reconciliation of Consolidated Statement of Financial Position (Continued)

The net effect of the transition to IFRS on deficit is further reconciled as follows:

	Note	October 31, 2011 $	November 1, 2010 $
Effects of Transition to IFRS			
Fair value of expired stock options and broker's warrants reclassified	22(c)(i)	618,600	618,600
Cumulative translation differences deemed to be zero	22(c)(iii)	130,095	130,095
Net Effect of Transition to IFRS		748,695	748,695
Deficit, as reported under Canadian GAAP		(7,645,967)	(8,220,733)
Deficit, as reported under IFRS		(6,897,272)	(7,472,038)

e) Reconciliation of Comprehensive Income

Comprehensive income for the year ended October 31, 2011 is reconciled to the amounts reported under Canadian GAAP as follows:

	Note	Canadian GAAP $	Effect of Transition to IFRS $	IFRS $
SALES		13,336,725	-	13,336,725
COST OF SALES		11,670,369	-	11,670,369
GROSS PROFIT		1,666,356	-	1,666,356
EXPENSES				
Depreciation		9,241	-	9,241
General and Administrative	22(c)(v)	603,804	-	603,804
Interest on Bank Loan		3,775	-	3,775
Interest on Debentures		16,255	-	16,255
Interest on Related Party Loan		34,855	-	34,855
Interest Income		(13,572)	-	(13,572)
		654,358	-	654,358
INCOME BEFORE INCOME TAXES		1,011,998	-	1,011,998
Income Taxes		(437,232)	-	(437,232)
NET INCOME FOR THE YEAR		574,766	-	574,766
Other Comprehensive Loss – Foreign Currency Translation Loss		(271,515)	-	(271,515)
COMPREHENSIVE INCOME FOR THE YEAR		303,251	-	303,251

The adoption of IFRS had no impact on the calculation of basic and diluted earnings per share.

NOTE 22 – FIRST-TIME ADOPTION OF IFRS (Continued)

f) Reconciliation of Cash Flows

The adoption of IFRS had no impact on the net cash flows of the Company. The changes made to the consolidated statements of financial position and consolidated statements of comprehensive loss have resulted in reclassifications of various amounts on the consolidated statements of cash flows; however, as there have been no changes to the net cash flows, no reconciliations have been presented.